



REMARKS BY

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Economic Integration in Challenging Times: The Business Perspective

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This year is the 200th anniversary of the discovery of the principle of ‘comparative advantage’ by an economist called David Ricardo. As I’m sure you all know, comparative advantage explains why you are always better off trading with your neighbours than not trading. To put it another way, 200 years ago Ricardo was the first cheerleader for free trade.

My name is Stephanie Honey, and I’m here today as a cheerleader for the modern version of trade – regional economic integration.

I have been where you are sitting. For nearly two decades I was an official at the New Zealand Ministry of Foreign Affairs and Trade, developing policy and negotiating with other countries’ officials. These days, I work with some of the largest internationally-oriented New Zealand firms, developing policy and advocating for trade liberalization. I also run a small business providing advice on trade policy and strategy, and offering trade policy education, to governments and the private sector in New Zealand and other countries.

Twenty or thirty years ago, someone like me would not have been on a podium talking to a room full of officials. Trade was the purview of governments, and no-one else. Delegations were full of civil servants, and not the people they served. But the world has changed, and trade has changed. So has the role that business can, and should, play in the trade agenda.

Today, I have two important messages for you: first, that economic integration helps businesses to build resilience and find opportunities – *even* in challenging times. And second, that business is an important partner for governments in driving ahead with, and cheering for, economic integration – *especially* in challenging times.

Let me talk for a few minutes about the different challenges we are facing.

We are seeing signs of a retreat from globalization. We are seeing the rise of populist politics, Trump, and Brexit, and fears about immigrants.

We are seeing new protectionist trade barriers being thrown up, and the rejection of the WTO, TPP and other mega-regional trade deals. The Governor of New Zealand's Reserve Bank has identified rising protectionism in the international trading environment as the single biggest threat to New Zealand's prosperity. Last year trade growth sank to some of the lowest levels of the last 50 years. It has risen a little this year, but the global economy remains weak and volatile after the Global Financial Crisis.

We are seeing disruptive technologies, where manufacturing jobs are being replaced by robots. The way that our parents' generation made and bought and sold things is being turned on its head. We are seeing the challenges of climate change, and rapid, chaotic urbanization.

Challenging times indeed!

But the business of business is to solve problems, including challenges like these ones. And the business of governments is to create the right enabling environment for firms to find those solutions, and survive, and prosper.

Where does CER fit into this story? In many ways, CER itself has been the product of challenging times. When CER was first negotiated, New Zealand was in an economic crisis. Our major trading partner, the UK, had joined the 'Fortress Europe' a decade before, severely limiting our biggest export market. New Zealand's own protectionist policies had driven our economy to near-paralysis. What could we do?

CER gave us vital impetus to help the economy out of the doldrums. As tariffs came down, firms could source inputs more cheaply so that they could export more efficiently. They were exposed to new ideas about how to operate. Thanks to new competition, they were forced to become more responsive to the market and to consumers.

Again, in the early 2000s, when Australia and New Zealand decided to press ahead with the visionary Single Economic Market concept, New Zealand and Australia were facing the challenge of a flood of FTAs negotiated by our trading partners, and a strong emerging Asian regionalism. Being almost invisible in any global view of the world is a huge challenge. What was our future going to be in that ferociously competitive environment? The answer lay in the Single Economic Market.

Born out of challenging times, CER has also helped business to build resilience and stay strong in challenging times. New Zealand firms are only too aware that they come from a small and geographically isolated base. Clearly global markets are where our fortunes lie. But global markets can be an intimidating place for small businesses. Exporting and offshore investment are risky, and costly.

For small businesses, Australia is a perfect testing-ground and launching pad to broader opportunities. It offers predictable rules, and a streamlined regulatory environment which

is very similar, and often identical, to New Zealand's. That lowers costs, and allows us to trade with confidence – nobody is going to change the rules on us or hold products up at the border on a whim.

For larger firms, too, the Single Economic Market has provided a solid starting point for being more outward-looking. It has been a vital source of investment, to make up for the lack of domestic capital, in addition to better, cheaper and high-quality inputs of goods and services. It has also been a powerful driver of domestic economic and policy reforms. New Zealand's and Australia's own regulatory structures are more streamlined, more focused on delivering high-quality and fit-for-purpose outcomes and more robust, thanks to regulatory competition and shared learning about best practice. Businesses have been obliged to become more productive and more nimble. That has ensured that New Zealand firms are ready to compete and succeed around the world.

The Single Economic Market also recognises that *trade* has changed – it's not your grandfather's or even your father's trade any more. The modern model of trade is one where supply chains and value chains are closely integrated across multiple geographies, and where trade is not just about goods, but also about services and investment, and about the rules that apply behind borders including standards and other regulatory requirements.

In the Single Economic Market, skilled workers, and flows of capital, and value-adding production processes involving both goods and services, can move easily backwards and forwards across the Tasman and out to the world. All of this means that New Zealand business is smarter, more competitive and more resilient than it otherwise would have been.

It is rare to find a New Zealand business that hasn't benefited in some way from Australian inputs, cross-fertilisation of Australian ideas or people, or capital investment, not to mention greater scale and scope arising from the single market.

And it's not just one-way traffic. 17,000 Australian firms export to New Zealand, compared to around 9,000 exporting to the US and 5,000 to China. New Zealand boosts the Australian economic mass by around one-fifth.

I talked before about resilience. Australia's and New Zealand's GDP growth have consistently been stronger than the OECD average. Australia and New Zealand were able to weather the global financial crisis far better than many others in the developed world.

But I am not here to blindly praise CER. The Single Economic Market isn't perfect.

There is still work to do to improve some policies that help create distortions in the Single Economic Market, for example in relation to tax policies and reducing behind-the-border regulatory barriers to services trade. The most ambitious and visionary forms of integration – currency, political union, central banks – are unlikely to be realised. And sadly, recently there have been signs of unpicking some longstanding integration frameworks around people movement.

However, the biggest benefit from SEM economic integration isn't across the Tasman. It is from CER outwards to the world. You could argue that AANZFTA is the poster child for what closer economic integration between Australia and New Zealand can achieve – two sovereign nations negotiating as one with other countries. Later, we were able to take the approaches on regulatory coordination and coherence that we developed in the SEM into the TPP Agreement. Even today, New Zealand and Australia are both strongly advocating for an ambitious market access outcome in RCEP, a negotiation which of course ASEAN leads.

So has business always been a cheerleader for CER? Business was reluctant to embrace CER at first, especially in sectors sheltered behind high tariffs, subsidies and regulatory barriers. On the New Zealand side, like David facing Goliath, there was also the existential fear of a larger partner. The New Zealand business community was fearful of the risk of the “hollowing out” of our economy. It must be recognised that New Zealand faces challenges in attracting and retaining skilled people, firms and investment. However, given the natural tendency for skills, capital and head offices to move away from the periphery and towards the centre, and so closer to major consumer markets, this process would undoubtedly be happening anyway – and in fact, the extra competitive edge that the SEM gives New Zealand businesses helps in enhancing our “value proposition” for an increasingly mobile workforce and investors. Again – in challenging times, economic integration with Australia has stood us in good stead.

Over time the benefits of the single market became more obvious to business. Firms recognized that they needed to be able to compete internationally and CER could help them to do that. The business community gradually become more enthusiastic, and began to engage more in the CER process. These days I think you would struggle to find a business on either side of the Tasman that does not strongly support closer economic integration.

But business can be frustrated at the slow progress and caution at the political level. The speed of decision-making and action in business are often significantly out of step with that of policy-makers.

Business actively seeks to influence and shape both governments' agendas for the Single Economic Market, and keep the pressure on for progress. The incubator of good ideas for the SEM is not just confined to governments – business, academics and commentators all have views, and are encouraged to share them. In that, we are helped with some robust architecture.

In the early 2000s, action on the Single Market Agenda ramped up considerably with the aim of creating a “seamless business environment”. In parallel with that, new mechanisms were established, including the Australia New Zealand Leadership Forum in 2004. The Forum provides an opportunity for senior business and political leaders, along with academics and political commentators, to talk about what is working, and what still needs work. It gives a chance for governments to hear what their business people think, and for the business community to shape the future policy direction.

Governments have recognized that they need to engage with business to understand its needs as they develop policy – especially as the issues they are looking at become more complex and potentially affect domestic constituencies more deeply.

Thanks to the Leadership Forum, the Australian and New Zealand business community have become increasingly aligned and a new kind of governance of the economic relationship is emerging. Recently, the business communities on both sides of the Tasman have developed a common set of priorities to share with political leaders, including pursuing greater trans-Tasman collaboration on infrastructure, tourism, health technologies, innovation and non-tariff barriers. But our biggest focus is on shared opportunities in third markets, especially in the face of globally disruptive forces.

Because of the resilience and strength that CER has given us, we are ready to take on the world. Even in challenging times, we can reframe “problems” to find solutions. Instead of economic crisis, protectionism and disruptive technologies, we see before us dynamic markets, an Asia-Pacific “open for business”, and fantastic innovative products, new business models and better, quicker ways to meet consumer needs. To put it another way, challenging times offer uncertainty and risk, but also opportunity.

But the role of business must go beyond simply trying to shape the agenda and to exploit the opportunities that it offers. Business also needs to help to “sell” the benefits.

It has become something of a cliché that globally we need a more compelling narrative on trade. We also need a broader recognition by governments, and policy-makers, and communities that more open markets are not enough – we also need solid macroeconomic settings and complementary and well-designed social policies to ensure that the benefits can be more widely shared by our communities, and that people are not left behind in this process.

In these challenging times, we cannot simply leave it to governments to make the case for modern trade agreements. The 200-year-old lessons about free trade from David Ricardo are not widely embraced. Business wants more trade, but it also has a responsibility to help build broader support for it. There are plenty of protestors who want to tear down globalisation, but few champions who want to explain the benefits of economic integration. Business potentially can play this role very powerfully.

I’d like to leave you, then, with a call to action. Talk and listen to your businesspeople. We can help to shape the economic integration agenda in a constructive and positive way, and help to keep politicians’ feet to the gas pedal as far as possible. And please, also enlist the support of business not only to benefit from, but also to advocate for, trade liberalisation in your communities. We can be great cheerleaders if given the right encouragement!